REPORT OF THE AUDITOR-GENERAL TO THE NORTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON SIYATHEMBA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Siyathemba Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. The municipality did not recognise land that meet the definition of a property, plant and equipment in accordance with Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. In addition, land was capitalised based on the valuation roll values which include improvements. As the municipality did not maintain adequate systems in place to identify and maintain records of all land, split between cost of land and improvements, I was not able to determine the full extent of the misstatement in land stated at R24 311 000 as it was impracticable to do so.

Investment Property

7. The municipality did not fair value its investment property at each reporting date, in accordance with GRAP 16 *Investment Property*. The municipality recognised investment property of R25 584 000 based on 30 June 2013 valuation roll values and the corresponding entry was through the accumulated surpluses. Consequently gain or loss arising from a change in the fair value of investment property was not recognised in surplus or deficit for the period in which it arises. As the municipality did not fair value investment property at each reporting date, I was not able to determine the full extent of the misstatement in investment property, gains or losses in fair value and accumulated surplus as it was impracticable to do so.

Receivables from non-exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence to confirm sundry debtors of R1 907 099 included in receivables from non-exchange transactions of R14 516 009 disclosed in note 4 to the financial statements. I was unable to confirm the sundry debtors by alternative means. Consequently I was unable to determine whether any further adjustments to receivables from non-exchange transactions stated at R14 516 009 in note 4 to the financial statements were necessary.

Provision for impairment

9. The municipality recognised a provision for impairment of debts in note 3 and 4 to the financial statements amounting to R28 939 547 (exchange transactions) and R12 005 189 (non exchange transactions). The municipality did not assess at the end of each period whether there is any objective evidence of impairment of asset as a result of one or more events that occurred after initial recognition of the assets and that a loss event has an impact on the estimated future cash flows as required by GRAP 104, *Financial Instruments*. Consequently, I was unable to determine whether any adjustments relating to provision for impairment on receivables from exchange, non-exchange transactions and impairment losses in the financial statements were necessary.

Payables from exchange transactions

10. During 2013, I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for payables from exchange transactions. As described in notes to the financial statements, the restatement of R7 355 245 was made in order to rectify a prior year misstatement. I was unable to confirm the restatement by alternative means. Consequently I was unable to determine whether any adjustment to the payables from exchange transactions of corresponding figure in the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Payables from non-exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence to confirm suspense accounts of R812 259 (2013: R1 152 521) included in payables from non-exchange transactions of R9 250 421 disclosed in note 17 to the financial statements. I was unable to confirm the suspense accounts by alternative means. Consequently I was unable to determine whether any further adjustments to payables from non-exchange transactions stated at R9 250 421 in the financial statements were necessary.

Revenue

12. The municipality did not recognise water services charges in accordance with the council approved tariff list. Consequently, revenue from water services charges and receivables from exchange transaction is understated by R1 991 790.

13. I was unable to obtain sufficient appropriate audit evidence that the municipality recorded all its property rates revenue, as internal controls were not established over the initiation and recording thereof into the financial records. The municipality did not reconcile the rateable valuation roll to the property rates levied during the year in accordance with section 7 of the Municipal Property Rates Act (MPRA), 2004 (Act No. 6 of 2004). I was unable to confirm the property rates by alternative means. Consequently, I was unable to determine whether any adjustment to property rates stated at R7 696 812 in the financial statements was necessary.

14. I was unable to obtain sufficient appropriate audit evidence that the municipality recorded all its direct income, as internal controls were not established over the initiation and recording thereof into the financial records. I was unable to confirm the direct income by alternative means. Consequently, I was unable to determine whether any adjustment to other revenue stated at R1 211 055 in the financial statements was necessary.

Qualified opinion

15. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Siyathemba Local Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

17. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

Material losses/impairments

18. As disclosed in note 44.1 to the financial statements, material losses of electricity to the amount of R3 498 287 (2013:R1 686 452) and water losses to the amount of R3 070 728 (2013: R2 710 043) were incurred as a result of technical losses (electricity), tampering of meters, faulty meters incorrect bulk ratios used in bulk meters and illegal connections.

Unauthorised expenditure

19. As disclosed in note 53.1 to the financial statements, unauthorised expenditure of R 13 853 550 for the current year and R 73 350 629 from prior years has not yet been dealt with in accordance with section 32 of the MFMA.

Fruitless and Wasteful expenditure

20. As disclosed in note 53.2 to the financial statements, fruitless and wasteful expenditure of R 219 216 for the current year and R1 460 770 from prior years has not yet been

dealt with in accordance with section 32 of the MFMA.

Irregular expenditure

21. As disclosed in note 53.3 to the financial statements, irregular expenditure of R22 522 656 for the current year and R49 072 045 from the prior years is still awaiting condonation in accordance with section 32 of the MFMA.

Financial sustainability

22. The financial statements indicates that the municipality incurred a net loss of R7 324 725 during the year ended 30 June 2014 and, as of that date, the municipality's current liabilities exceeded its current assets by R 19 562 669. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Additional matter

23. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

24. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

25. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

26. We were unable to report on the usefulness and reliability of the reported performance information, as the annual performance report of the municipality was not prepared as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the MFMA.

Compliance with legislation

27. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA are as follows:

Strategic and performance management

28. The adopted integrated development plan (IDP) did not reflect the key performance indicators and targets, as required by sections 26 and 41 of the MSA, as well as Municipal planning and performance management regulation 2(1)(c).

29. Measurable performance targets for the financial year with regard to each of the development priorities or objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and the Municipal planning and

performance management regulations 12(1) and 12(2)(e).

30. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.

31. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.

32. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).

33. The performance management system and related controls were not in place as it did not describe and represent the processes of performance and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.

Budget

34. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified opinion.

Audit committees

36. An audit committee was not in place, as required by section 166(1) of the MFMA.

Procurement and contract management

37. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).

38. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

39. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

40. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18

41. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

42. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

43. Awards were made to providers who are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

44. Quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

Human resource management and compensation

45. An acting CFO was appointed for a period of more than six months in contravention of section 54A (2A) of the MSA.

46. The municipality did not develop and adopt appropriate systems policies and procedures to monitor measure and evaluate performance of staff in contravention of MSA sec 67(d).

47. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements within 1 month after the beginning of the financial year, as required by section 57(2)(a) of the MSA.

Expenditure management

48. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

49. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

50. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred / accounted for creditors / accounted for payments made, as required by section 65(2)(b) of the MFMA.

Conditional grants

51. The municipality did not evaluate its performance in respect of programmes or functions funded by the Local Government Financial Management Grant allocation, as required by section 12(5) of the DoRA.

52. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Systems Improvement Grant allocation, as required by section 12(5) of the DoRA.

Revenue management

53. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

54. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

55. Sufficient appropriate audit evidence could not be obtained that revenue due to the

municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Assets

56. The municipality did not establish an investment policy that was adopted by council, as required by section 13(2) of the MFMA and Municipal investment regulation 3(1)(a).

Liability management

57. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

58. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequences Management

59. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

60. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

61. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

62. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

63. The following challenges were experienced that contributed to the weaknesses in the financial environment and the ultimate audit outcome:

- There was a lack of awareness by management to ensure that established formal codes of conduct are effectively and continuous communicated to staff.
- Management did not monitor planning; budgeting, implementation and reporting process on an ongoing basis and staff tasked with these functions were not held accountable.
- Personnel had not been allocated specific duties and responsibilities to facilitate the continuous monitoring of internal controls
- Leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.
- Leadership did not intensify its drive to address all material and non-material findings reported in previous audit. There was a sense of complacency displayed as result of better opinion obtained the previous financial year.

- There was lack of attention by the leadership to address issues relating to IT matters.

Financial and performance management

64. The underlying accounting records of the municipality did not facilitate the preparation of the financial statements to comply with the accounting framework

65. Management did not document and approve internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting on performance information. Consequently, performance systems, processes and procedures had not been designed and implemented.

66. The municipality did not have individuals who sufficiently understand the financial reporting framework and performance and financial management requirements. This resulted in the municipality engaging a consultant to assist in the compilation of the general ledger and financial statements

67. Leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

68. There was lack of attention by the leadership to address issues relating to IT matters.

Governance

69. As the internal audit services are a shared service, it would appear that financial constraint, coupled with enough resources is a driver of the lack of discharge of some of the duties.

70. Leadership did not prioritise the establishment of a fully functioning performance audit committee and audit committee and therefore the functions were not established and functional during the financial year. This also resulted in the committees not being able to fulfil all their responsibilities

Kimberley

AUDITOR-GENERAL

30 November 2014

AUDITOR-GENERAL
SOUTH AFRICA

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